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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

[✓] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 0-11442

Texas Utilities Electric Company

A Texas Corporation

I.R.S. Employer Identification No. 75-1837355

2001 BRYAN TOWER, DALLAS, TEXAS 75201
(214) 812-4600

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ___

Common stock outstanding at July 31, 1992: 145,000,000 shares, without par value.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

THE FINANCIAL STATEMENTS HEREIN HAVE BEEN REVIEWED BY DELOITTE & TOUCHE, INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, WHOSE REPORT WITH RESPECT THERETO IS FILED HEREWITH IN PART I OF THIS REPORT. THE FOLLOWING FINANCIAL STATEMENTS SHOULD BE CONSIDERED IN CONJUNCTION WITH THE NOTES THERETO, THE FINANCIAL STATEMENTS OF THE COMPANY INCLUDED IN THE 1991 ANNUAL REPORT ON FORM 10-K AND THE INFORMATION UNDER MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. IN THE OPINION OF THE COMPANY, ALL ADJUSTMENTS (CONSTITUTING ONLY NORMAL RECURRING ACCRUALS AND THE CHANGE IN ACCOUNTING DISCUSSED IN NOTE 14 TO FINANCIAL STATEMENTS) NECESSARY TO A FAIR STATEMENT OF THE RESULTS OF OPERATIONS HAVE BEEN INCLUDED THEREIN.

TEXAS UTILITIES ELECTRIC COMPANY
STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1992	1991	1992	1991	1992	1991
			Thousands of Dollars			
OPERATING REVENUES	$1,195,775	$1,197,059	$2,252,696	$2,291,063	$4,853,155	$4,850,544
OPERATING EXPENSES						
Fuel and purchased power	406,351	434,871	786,662	821,372	1,721,712	1,768,615
Operation	175,578	182,326	344,581	362,328	711,868	723,767
Maintenance	77,034	81,500	146,730	146,744	304,670	303,146
Depreciation and amortization	101,740	108,926	202,467	216,837	410,845	409,840
Federal income taxes	49,966	23,503	64,885	43,481	174,368	166,552
Taxes other than income	103,273	91,438	207,268	183,802	460,813	360,539
Total operating expenses	913,922	922,564	1,752,593	1,774,564	3,784,276	3,732,459
OPERATING INCOME	281,853	274,495	500,103	516,499	1,068,879	1,118,085
OTHER INCOME (LOSS)						
Allowance for equity funds used during construction	49,515	53,810	96,185	105,800	242,130	253,620
Provision for regulatory disallowance (Note 11)	–	–	–	–	(1,381,145)	–
Other income and deductions – net	492	1,857	2,590	3,511	11,539	6,778
Federal income taxes (Notes 7 and 11)	205	(581)	(370)	(1,192)	363,675	(2,286)
Total other income (loss)	50,212	54,886	98,405	108,119	(763,801)	258,112
TOTAL INCOME	332,065	329,381	598,508	624,618	305,078	1,376,197
INTEREST CHARGES						
Interest on mortgage bonds	149,787	149,641	304,874	296,369	617,234	577,794
Interest on other long-term debt	13,803	15,645	28,156	31,785	58,193	65,462
Other interest	8,606	15,840	15,986	25,103	52,992	42,446
Allowance for borrowed funds used during construction	(27,888)	(29,684)	(54,265)	(58,566)	(107,999)	(138,922)
Total interest charges	144,308	151,442	294,751	294,693	620,420	546,780
Income (loss) before cumulative effect of a change in accounting principle	187,757	177,939	303,757	329,925	(315,342)	829,417
Cumulative effect of a change in accounting for unbilled revenue (Net of taxes of $41,679,000)(Note 14)	–	–	80,907	–	80,907	–
NET INCOME (LOSS)	187,757	177,939	384,664	329,925	(234,435)	829,417
PREFERRED STOCK DIVIDENDS	30,166	30,374	60,440	60,824	121,219	121,427
NET INCOME (LOSS) AFTER PREFERRED STOCK DIVIDENDS	$ 157,591	$ 147,565	$ 324,224	$ 269,101	$ (355,654)	$ 707,990

See accompanying Notes to Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,		Twelve Months Ended June 30,	
	1992	1991	1992	1991
	Thousands of Dollars			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 384,664	$ 329,925	$ (234,435)	$ 829,417
Adjustments to reconcile net income (loss) to cash provided by operating activities:				
Depreciation	201,009	213,113	406,795	403,632
Deferred federal income taxes – net	75,381	37,136	(209,017)	90,119
Federal investment tax credits – net	(10,161)	(8,064)	(55,596)	(15,075)
Allowance for equity funds used during construction	(96,185)	(105,800)	(242,130)	(253,620)
Amortization of regulatory assets	5,712	11,345	11,908	20,114
Amortization of nuclear fuel	14,152	8,344	19,894	16,361
Provision for regulatory disallowances (Note 11)	–	–	1,381,145	–
Provision for refunds and related interest – net (Note 11)	(8,779)	–	36,114	–
Cumulative effect of a change in accounting for unbilled revenue – net (Note 14)	(80,907)	–	(80,907)	–
Cash flows from operations	484,886	485,999	1,033,771	1,090,948
Changes in assets and liabilities:				
Receivables – net	23,422	(75,661)	69,229	(59,860)
Inventories	(8,125)	(7,514)	(19,836)	(35,060)
Accounts payable – net	(17,899)	(17,119)	(17,875)	(24,759)
Interest and taxes accrued	(77,976)	(50,019)	56,064	28,066
Other working capital	4,106	(27,654)	74,759	(19,858)
Over/under-recovered fuel revenue	18,388	(32,914)	7,773	(58,635)
Deferred taxes on over/under-recovered fuel revenue	(6,252)	11,191	(2,643)	19,936
Other – net	(26,975)	1,134	(7,002)	13,065
Net cash provided by operating activities	393,575	287,443	1,194,240	953,843
CASH FLOWS FROM FINANCING ACTIVITIES:				
Sales of securities:				
First mortgage bonds	905,000	459,858	1,182,440	808,560
Preferred stock	–	–	–	24,531
Common stock	199,563	150,000	400,025	150,000
Retirement of long-term debt and preferred stock	(1,076,824)	(198,530)	(1,115,472)	(238,970)
Change in notes payable to parent	295,300	(61,075)	222,375	(95,275)
Change in notes payable	–	226,000	(11,000)	84,500
Preferred stock dividends paid	(60,304)	(60,985)	(120,932)	(103,224)
Common stock dividends paid	(320,460)	(321,720)	(649,680)	(635,397)
Debt premium, discount and financing expenses	(76,070)	(19,563)	(78,801)	(23,750)
Net cash provided by (used in) financing activities	(133,795)	173,985	(171,045)	(29,025)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Construction expenditures	(568,993)	(538,970)	(1,225,704)	(1,181,356)
Allowance for equity funds used during construction (excluding amount for nuclear fuel)	88,578	97,720	222,926	240,381
Change in construction receivables/payables – net	7,385	(3,483)	4,793	37,415
Cash construction expenditures	(473,030)	(444,733)	(997,985)	(903,560)
Non-utility property – net	1,463	(14)	1,450	(30)
Nuclear fuel (excluding allowance for equity funds used during construction)	(7,611)	(11,301)	(13,003)	(16,230)
Other investments	(6,746)	(5,367)	(12,657)	(5,084)
Net cash used in investing activities	(485,924)	(461,415)	(1,022,195)	(924,904)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(226,144)	13	1,900	(86)
CASH AND CASH EQUIVALENTS – BEGINNING BALANCE	231,801	4,644	4,657	4,743
CASH AND CASH EQUIVALENTS – ENDING BALANCE	$ 5,657	$ 4,657	$ 5,657	$ 4,657

See accompanying Notes to Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY

BALANCE SHEETS

ASSETS

	June 30, 1992 (Unaudited)	December 31, 1991 (Audited)
	Thousands of Dollars	
ELECTRIC PLANT		
In service:		
Production	$10,462,683	$10,421,387
Transmission	1,456,658	1,443,565
Distribution	3,460,839	3,377,396
General	427,463	425,448
Total	15,807,643	15,667,796
Less accumulated depreciation	3,570,864	3,392,463
Electric plant in service less accumulated depreciation	12,236,779	12,275,333
Construction work in progress	5,212,657	4,809,088
Nuclear fuel (net of accumulated amortization – 1992, $39,545,000; 1991, $25,393,000)	334,767	333,701
Held for future use	28,842	29,069
Electric plant less accumulated depreciation and amortization	17,813,045	17,447,191
Less reserve for regulatory disallowances (Note 11)	1,308,460	1,308,460
Net electric plant	16,504,585	16,138,731
INVESTMENTS	34,202	28,919
CURRENT ASSETS		
Cash in banks	5,657	5,451
Temporary cash investments – at cost	–	226,350
Cash and cash equivalents	5,657	231,801
Special deposits	22,187	22,171
Accounts receivable:		
Customers (Notes 9 and 14)	158,947	85,010
Other	64,863	39,840
Allowance for uncollectible accounts	(2,568)	(2,931)
Inventories – at average cost:		
Materials and supplies	179,188	174,977
Fuel stock	89,982	86,068
Prepaid taxes	28,226	10,771
Other current assets	15,947	22,953
Total current assets	562,429	670,660
DEFERRED DEBITS		
Unamortized regulatory assets:		
Debt reacquisition costs	177,907	109,708
Cancelled lignite unit costs	24,383	25,563
Rate case costs	49,609	48,328
Litigation and settlement costs	72,685	72,685
Under-recovered fuel revenue	14,562	32,950
Other deferred debits	63,898	38,615
Total deferred debits	403,044	327,849
Less reserve for regulatory disallowances (Note 11)	72,685	72,685
Net deferred debits	330,359	255,164
Total	$17,431,575	$17,093,474

See accompanying Notes to Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	June 30, 1992 (Unaudited)	December 31, 1991 (Audited)
	Thousands of Dollars	
CAPITALIZATION		
Common stock – without par value:		
Authorized shares – 180,000,000		
Outstanding shares:		
June 30, 1992, 145,000,000		
December 31, 1991, 141,125,000	$ 4,516,025	$ 4,316,463
Retained earnings	1,428,738	1,424,974
Total common stock equity	5,944,763	5,741,437
Preferred stock:		
Not subject to mandatory redemption	1,007,728	1,007,728
Subject to mandatory redemption	420,556	425,758
Long-term debt, less amounts due currently	7,011,688	7,253,626
Total capitalization	14,384,735	14,428,549
CURRENT LIABILITIES		
Notes payable:		
Parent	295,300	–
Banks	250,000	250,000
Long-term debt due currently	158,437	82,522
Total (to be refinanced)	703,737	332,522
Accounts payable:		
Affiliates	114,321	109,288
Other	138,550	149,950
Dividends declared	30,067	30,225
Customers' deposits	53,693	52,159
Taxes accrued	175,859	251,363
Interest accrued	183,451	185,923
Other current liabilities	73,133	72,862
Total current liabilities	1,472,811	1,184,292
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES		
Accumulated deferred federal income taxes	768,281	658,585
Unamortized federal investment tax credits	717,684	727,896
Other deferred credits and noncurrent liabilities	88,064	94,152
Total deferred credits and other noncurrent liabilities	1,574,029	1,480,633
COMMITMENTS AND CONTINGENCIES (Notes 2 and 13)		
Total	$17,431,575	$17,093,474

See accompanying Notes to Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. Significant Accounting Policies

Electric Plant — Electric plant is stated at original cost. The cost of property additions to electric plant includes labor and materials, applicable overhead and payroll-related costs and an allowance for funds used during construction.

Allowance For Funds Used During Construction — Allowance for funds used during construction (AFUDC) is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on equity capital used to finance construction are added to electric plant. The accrual of AFUDC is in accordance with generally accepted accounting principles for the industry, but does not represent current cash income.

Texas Utilities Electric Company (Company) is capitalizing AFUDC, compounded semi-annually, on expenditures for ongoing construction work in progress (CWIP) and nuclear fuel in process not otherwise allowed in rate base by regulatory authorities. In 1990 and 1991, the Company used a net-of-tax rate of 9.0% and 10.4%, respectively, on projects commenced before March 1, 1986, and a gross rate of 10.5% and 12.0%, respectively, on projects commenced thereafter. The net and gross rates were changed for 1992 to 9.2% and 10.8%, respectively. Rates were determined on the basis of, but are less than, the cost of capital used to finance the construction program.

Depreciation of Electric Plant — Depreciation is generally based upon an amortization of the original cost of depreciable properties (net of regulatory disallowances) on a straight-line basis over the estimated service lives of the properties. Depreciation also includes an amount for Comanche Peak nuclear generating station (Comanche Peak) decommissioning costs which is being accrued over the life of the unit and deposited to an external trust fund. (See Note 13.)

Nuclear Fuel and Refueling Outage Costs — The amortization of nuclear fuel in the reactor (net of regulatory disallowances) is calculated on the units of production method and, subsequent to commercial operation, is included in nuclear fuel expense. The Company accrues a provision for costs anticipated to be incurred during the next scheduled Comanche Peak Unit 1 refueling outage.

Revenues — Revenues include billings under approved rates (including a fixed fuel factor) applied to meter readings each month on a cycle basis and, beginning January 1, 1992, an accrual of base rate revenue for energy provided after cycle billing but not billed through the end of each month (see Note 14). Revenues also include an amount for under- or over-recovery of fuel revenue representing the difference between actual fuel cost and billings on the approved fixed fuel factor and a provision that generally allows recovery through a Power Cost Recovery Factor, on a monthly basis, of the capacity portion of purchased power cost from cogenerators not included in base rates. The fuel portion of purchased power cost is included in the fixed fuel factor. Pursuant to a Public Utility Commission of Texas (PUC) rule, the Company is required to refund over-recovered fuel revenue if the amount of over-recovery, including interest, exceeds the lesser of $40 million or 4% of its annual known or reasonably predictable fuel costs most recently approved by the PUC. Reconciliation of fuel costs is to be made in a general rate case or a reconciliation proceeding. Reconciliation may be requested only if it has either been over one year since the utility's last final reconciliation or the utility has materially under-recovered its known or reasonably predictable fuel costs.

Federal Income Taxes — The Company is included in the consolidated federal income tax return of Texas Utilities Company (Texas Utilities) and its subsidiaries (System Companies), and federal income taxes are allocated to all System Companies based upon their taxable income or loss. Deferred federal income taxes are currently provided for timing differences between book and taxable income (including the provision for regulatory disallowances). Generally, such differences result primarily from the use of liberalized depreciation and cost recovery deductions allowable under the Internal Revenue Code, the under- or over-

1. SIGNIFICANT ACCOUNTING POLICIES — (concluded)

recovery of fuel revenue and unbilled revenues accrued for tax purposes. Investment tax credits are normally amortized to income over the estimated service lives of the properties. (See Note 7 for pending change in accounting for income taxes.)

Cash Flows — For purposes of reporting cash flows, temporary cash investments purchased with a remaining maturity of three months or less are considered to be cash equivalents.

Supplemental schedules of cash payments are provided below:

	Six Months Ended June 30,		Twelve Months Ended June 30,	
	1992	1991	1992	1991
	Thousands of Dollars			
CASH PAYMENTS:				
Interest (net of amounts capitalized)	$292,126	$281,592	$616,379	$527,817
Income taxes	–	12,600	57,725	62,901

2. AFFILIATES

Texas Utilities provides common stock capital and partial requirements for short-term financing to the Company. Texas Utilities has three other subsidiaries which perform specialized services for the System Companies, including the Company: Texas Utilities Services Inc. provides financial, accounting, computer, telecommunications, shareholder services and other administrative services at cost; Texas Utilities Fuel Company (Fuel Company) owns a natural gas pipeline system, acquires, stores and delivers fuel gas and provides other fuel services at cost for the generation of electric energy by the Company; and Texas Utilities Mining Company (Mining Company) owns, leases and operates fuel production facilities for the surface mining and recovery of lignite at cost for use at the Company's generating stations.

The Company has entered into agreements with Fuel Company to procure certain fuels and related services and with Mining Company for the procurement and production of lignite; payments are at cost for the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of Fuel Company and of Mining Company. The Company is, in effect, obligated for the principal, $369,520,000 at June 30, 1992, and interest on long-term notes of Fuel Company and of Mining Company through payments described above. Such notes mature at various dates through 2001 and have interest rates ranging from 8.50% to 10.85%.

3. SHORT-TERM FINANCING

The Company and Texas Utilities have joint lines of credit aggregating $1,025,000,000 under a credit facility agreement with a group of commercial banks. The facility, for which Texas Utilities pays a fee, will be reduced in 1993, 1994 and 1995 by $325,000,000, $350,000,000 and $350,000,000, respectively. This credit facility may be used to finance new construction, as backup for commercial paper and for general corporate purposes. At June 30, 1992, the Company had $250,000,000 outstanding under this credit facility. From time to time Texas Utilities makes short-term loans to the Company.

4. COMMON AND PREFERRED STOCKS

	Shares Outstanding		Amount	
	June 30, 1992	December 31, 1991	June 30, 1992	December 31, 1991
			Thousands of Dollars	
Common stock - without par value: authorized shares - 180,000,000	145,000,000	141,125,000	$4,516,025	$4,316,463

Preferred stock — cumulative, without par value; entitled upon liquidation to $100 a share; authorized shares — 17,000,000:

Series Groups		Shares Outstanding		Amount		Redemption Price Per Share (Before Adding Accumulated Dividends)			
		June 30,	December 31,	June 30,	December 31,	Current		Eventual Minimum	
From	To	1992	1991	1992	1991	From	To	From	To
				Thousands of Dollars					
Not Subject to Mandatory Redemption									
$4.00	$ 4.84	1,142,942	1,142,942	$ 114,588	$ 114,588	$101.79	$112.00	$101.79	$112.00
5.08	7.80	1,629,675	1,629,675	163,270	163,270	102.40	103.60	102.40	103.60
8.16	8.93	1,999,475	1,999,475	198,642	198,642	101.92	104.09	101.00	103.60
9.32	11.33	1,550,000	1,550,000	153,205	153,205	102.33	107.55	100.00	102.73
Adjustable rate (a)		1,850,000	1,850,000	181,713	181,713	103.00	103.00	100.00	100.00
Stated rate auction(b)		1,000,000	1,000,000	98,164	98,164	—	—	100.00	100.00
Flexible adjustable rate (c)		1,000,000	1,000,000	98,146	98,146	—	—	100.00	100.00
Total		10,172,092	10,172,092	$1,007,728	$1,007,728				
Subject to Mandatory Redemption(d)									
$8.92	$ 9.48	1,433,300	1,474,250	$ 142,744	$ 146,781	$103.00	$105.00	$100.00	$100.00
9.64	10.375	2,794,000	2,808,000	277,812	278,977	105.00	107.56	100.00	100.00
Total		4,227,300	4,282,250	$ 420,556	$ 425,758				

(a) Adjustable rate series A bears a dividend rate for the period ended July 31, 1992 of 6.50% per annum and adjustable rate series B bears a dividend rate for the period ended June 30, 1992 of 7.00% per annum, both of which are based on a fixed liquidation price of $100 per share.

(b) Stated rate auction series A bears a dividend rate of 8.24% per annum for the fixed dividend period through September 30, 1992, based on a fixed liquidation price of $100 per share. The dividend rate for each 49 day period thereafter will be determined on the basis of certain auction procedures. All redemptions are at a price of $100 per share plus accumulated dividends. The shares are not redeemable prior to September 29, 1992.

(c) Flexible adjustable rate series A and B bear a dividend rate for the period ended June 30, 1992 of 8.70% per annum, based on a fixed liquidation price of $100 per share.

(d) Certain issues may not be redeemed prior to 1995.

As of July 1992, the Company has redeemed or otherwise acquired 14,000 shares of its $10.08 series, 20,000 shares of its $10.00 series and 66,700 shares of its $9.48 series cumulative preferred stock which fulfills its mandatory redemption requirements until April 1, 1993.

For additional information concerning dividend rates and mandatory redemption requirements for preferred stock, see Note 5 to Financial Statements in the Company's Form 10-K for the year 1991.

5. Retained Earnings Restrictions

The Company's articles of incorporation, the mortgages, as supplemented, and the debenture agreements contain provisions which, under certain conditions, restrict distributions on or acquisitions of its common stock. At June 30, 1992, $177,065,000 of retained earnings were thus restricted as a result of the provisions of such articles of incorporation.

The articles of incorporation restriction provides in effect that the Company shall not pay any common dividend which would reduce retained earnings to less than one and one-half times annual preferred dividend requirements. The mortgage restrictions are based primarily on the replacement fund requirements of the mortgages. The restriction contained in the debenture agreements is designed to maintain the aggregate preferred and common stock equity at or above 33-1/3% of total capitalization.

6. Long-Term Debt, less amounts due currently

Maturity Groups From	Maturity Groups To	Interest Rate Groups From	Interest Rate Groups To	June 30, 1992	December 31, 1991
				Thousands of Dollars	
First mortgage bonds:					
1993	1997	4-1/4%	9-1/2%	$ 299,000	$ 356,000
1998	2002	6-5/8	10-3/8	957,000	690,000
2003	2007	7-1/2	10-1/8	800,000	750,000
2008	2012	9-3/8	11-5/8	325,000	400,000
2013	2017	9-1/4	12	950,000	1,675,000
2018	2022	8-7/8	11-3/8	1,225,000	950,000
Pollution control series:					
2007	2022	6-3/8	10	1,073,000	990,000
Taxable pollution control series: (a)					
—	2021	Various		275,000	275,000
Sinking fund debentures:					
1993	1994	6-5/8	7-3/4	11,950	29,053
Secured medium-term notes, series A through C:					
1994	2003	8.72	10.50	600,000	600,000
Total				6,515,950	6,715,053
Pollution control revenue bonds:					
2004	2009	5.70	7-5/8	158,930	158,930
Promissory note, obligation and debt assumed for purchase of electric plant:(b)					
1993	2021	8.25	9.73	394,633	437,773
Unamortized premium and discount				(57,825)	(58,130)
Total long-term debt, less amounts due currently				$7,011,688	$7,253,626

(a) Taxable pollution control series consist of four series: $75,000,000 of Series 1991A at 3.95% at June 30, 1992; $50,000,000 of Series 1991B at 8.10% through June 1, 1993; $50,000,000 of Series 1991C at 8.49% through June 1, 1994; and $100,000,000 of Series 1991D at 8.85% through June 1, 1995. Series 1991A bonds are in a flexible mode and while in such mode will be remarketed for periods of less than 270 days, and are secured by an irrevocable letter of credit. The interest rates on Series 1991B through Series 1991D bonds will be repriced at various mandatory tender dates beginning in 1993. The Company has existing lines of credit that would allow refinancing of the bonds on a long-term basis should remarketing prove unsuccessful.

(b) In 1988, the Company purchased the ownership interest in Comanche Peak of Brazos Electric Power Cooperative and issued a promissory note payable over 33 years. The note is secured by a mortgage on the acquired interest. Also in 1988, the Company purchased the ownership interest in Comanche Peak of the Texas Municipal Power Agency under an installment sale agreement obligating the Company to make semi-annual payments through 1993. The transaction is treated as a completed purchase of electric plant; however, under terms of the agreement, legal title to the purchased assets passes to the Company at the time of, and in proportion to, each payment made. In 1990, the Company purchased the ownership interest in Comanche Peak of Tex-La Electric Cooperative of Texas, Inc. (Tex-La) and assumed debt of Tex-La payable over approximately 32 years. The assumption is secured by a mortgage on the acquired interest. Texas Utilities has guaranteed these various payments.

6. LONG-TERM DEBT, less amounts due currently — (concluded)

At June 30, 1992 the Company had funds on deposit with the trustee to effect the redemption on July 1, 1992, of $150,000,000 of its First Mortgage and Collateral Trust Bonds, 10-1/2% series due July 1, 2017, $150,000,000 of its First Mortgage and Collateral Trust Bonds, 9-1/2% series due July 1, 1997, and $30,000,000 of its Dallas Power & Light Company First Mortgage Bonds, 9-3/8% series due June 1, 2000; accordingly, such issues are reflected as extinguished in the accompanying financial statements.

From time to time, various principal amounts of first mortgage bonds have been redeemed by the Company prior to maturity. The debt reacquisition costs have been deferred and are being amortized over the remaining lives of the bonds retired.

The total amounts of sinking fund debentures authorized in the debenture agreements have been issued. The Company's first mortgage and collateral trust bonds may be issued in additional amounts, without limitation as to the maximum thereof, but limited by property, earnings and other provisions of the mortgages. None of the long-term debt is pledged, held by or for account of the issuer, or held in its sinking or other special funds. Electric plant of the Company is generally subject to the liens of its mortgages.

7. Federal Income Taxes

The details of federal income taxes are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1992	1991	1992	1991	1992	1991
			Thousands of Dollars			
Charged (credited) to operating expenses:						
Current	$18,152	$ 1,886	$ 17,788	$ 3,497	$ 95,042	$ 72,086
Deferred – net (Note 11)	36,895	24,402	57,258	48,048	94,742	109,541
Investment tax credits – net	(5,081)	(2,785)	(10,161)	(8,064)	(15,416)	(15,075)
Total to operating expenses	49,966	23,503	64,885	43,481	174,368	166,552
Charged (credited) to other income:						
Current	(6,070)	443	(11,502)	913	(17,093)	1,772
Deferred – net (Note 11)	5,865	136	11,872	279	(306,402)	514
Investment tax credits (Note 11)	–	–	–	–	(40,180)	–
Total to other income	(205)	581	370	1,192	(363,675)	2,286
Charged to cumulative effect of a change in accounting for unbilled revenue – deferred	–	–	41,679	–	41,679	–
Total federal income taxes	$49,761	$24,084	$106,934	$44,673	$(147,628)	$168,838

In February 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", which is effective for fiscal years beginning after December 15, 1992. The Statement, among other things, requires the liability method of recognition for all temporary differences, requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates and prohibits net-of-tax accounting and reporting. Certain provisions of the Statement provide that regulated enterprises are permitted to recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. Although application of the Statement will increase both total assets and liabilities, these requirements are not expected to have a material effect on the Company's financial position or results of operations.

8. Retirement Plan and Other Postretirement Benefits

The Company has a retirement plan covering substantially all employees. An employee's benefits are based on years of accredited service and average annual earnings received during the three years of highest earnings. The costs of the plan were determined by independent actuaries. Contributions to the plan were determined using the frozen attained age method which is one of the several actuarial methods allowed by the Employee Retirement Income Security Act of 1974. For financial reporting purposes, pension cost has been determined using the projected unit credit actuarial method. The cumulative difference between pension cost as determined for financial reporting purposes and contributions to the plan is recorded either as prepaid pension cost or as accrued pension liability.

In addition to the retirement plan, the Company offers certain health care and life insurance benefits to active and retired employees. The costs of such benefits are generally recognized as claims are paid.

8. RETIREMENT PLAN AND OTHER POSTRETIREMENT BENEFITS — (concluded)

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", which is effective for fiscal years beginning after December 15, 1992. The Statement requires a change in the accounting for a company's obligation to provide health care and certain other benefits to its retirees from the "pay-as-you-go" method to an accrual method and requires the cost of the obligation to be recognized in the period from employment date until full eligibility for benefits. The Company expects that the accrual of benefits cost will either be recovered through future rates beginning after the commercial operation of Comanche Peak Unit 2, which is similar to the current treatment of retirement plan costs, or, pursuant to certain provisions of the Statement, that a regulatory asset will be recorded to reflect amounts, if any, whose future recovery is probable through rates as costs are paid. Therefore, this Statement is not expected to have a material effect on the Company's financial position or results of operations.

9. SALES OF ACCOUNTS RECEIVABLE

In 1989, the Company entered into a five year agreement with certain financial institutions whereby the Company is entitled to sell and such financial institutions are required to purchase, on an ongoing basis, up to an aggregate of $300,000,000 of undivided interests in customer accounts receivables. At June 30, 1992, and December 31, 1991, $300,000,000 and $200,000,000, respectively, of such receivables were owned by financial institutions. Customer accounts receivables include unbilled revenues.

10. COMANCHE PEAK NUCLEAR GENERATING STATION

The Company is operating one nuclear-fueled generating unit and constructing a second unit at Comanche Peak, each of which is designed for a capability of 1,150 megawatts. The Company owns all of the plant. (See Note 6.)

The Company is subject to the jurisdiction of the Nuclear Regulatory Commission (NRC) with respect to nuclear power plants. NRC regulations govern the granting of licenses for the construction and operation of nuclear power plants and subject such plants to continuing review and regulation. In April 1990, the NRC issued a full power operating license for Unit 1. The construction permit for Unit 2 is in effect and has been extended until a "latest date for completion" of August 1, 1995.

In July 1988, NRC proceedings before an Atomic Safety and Licensing Board, which involved an intervenor, were dismissed pursuant to a joint motion for dismissal filed by the Company, the intervenor and the NRC Staff. Under the terms of this motion, a representative of the intervenor was appointed as a member of the Operations Review Committee (ORC) for Comanche Peak. The ORC is required by the Comanche Peak technical specifications and reviews operational and other safety related matters.

At various times, the Company has paid civil penalties to the NRC for violations of NRC regulatory requirements.

Unit 1 and common facilities were placed in commercial operation on August 13, 1990, and Unit 2 is scheduled for service for the peak season of 1993. At June 30, 1992, the Company had $3.871 billion invested in Unit 2 (net of $485 million included in the reserve for regulatory disallowances required by order of the PUC), including AFUDC. The estimated cash requirements in 1992 and 1993 to complete Unit 2 are approximately $450 million in the aggregate. Due to the uncertainty of regulatory treatment and the exact month of completion, no estimate for AFUDC accruals on Unit 2 is included. Such accrual approximated $23 million for June 1992.

11. RATE INCREASE

In January 1990, the Company made applications to the PUC and to its municipal regulatory authorities for upward adjustments in rates for electric service throughout its service area which would increase operating revenues by approximately $442 million, or 10.2%, based upon the test year ended June 30, 1989. Such request reflected costs associated with the commercial operation of Unit 1 of Comanche Peak. On August 13, 1990, pursuant to rules of the PUC, the Company placed its requested rate increase into effect applicable to energy sales on or after such date.

In August 1991, the PUC issued a final order in the rate case. This order was revised and reissued in September 1991. The order provided for a total revenue increase of approximately $442 million and included $695 million of CWIP in rate base to support the revenue increase. It also included a prudence disallowance of $472 million with respect to certain Comanche Peak costs relating to 87.8% of the Company's ownership interest in both units of Comanche Peak. With respect to the Company's reacquisition of the remaining 12.2% minority owner interest in Comanche Peak, the order included an additional disallowance of $909 million. In addition, the order provided for refunds aggregating $56 million, including interest, principally with respect to fuel gas costs considered imprudent by the PUC. Such amount is being refunded to customers, with interest, over a two year period that began in November 1991.

The Company strongly disagrees with the order and in November 1991 filed a petition in the 250th Judicial District Court of Travis County, Texas, requesting a reversal and remand of the order. Other parties to the PUC proceeding have also filed appeals with respect to various portions of the order. The Company is unable to predict the outcome of these appeals.

In September 1991, the Company recorded a charge against earnings, as a provision for regulatory disallowances, of $1.381 billion ($1.011 billion after tax) as a result of the PUC order. The charge is comprised of the $472 million of costs associated with Comanche Peak that were disallowed and the disallowance of $909 million related to the minority owner reacquisitions. Also, the Company recorded a charge of $56 million including interest ($37 million after tax), representing principally fuel gas costs disallowed by the order. As a result, the Company will be precluded from incurring certain forms of debt and issuing additional shares of preferred stock for a period of approximately twelve months from the date of recording such disallowances.

11. RATE INCREASE — (concluded)

The following schedule details the components of the charges and their effect on net income (loss) for the twelve month period ended June 30, 1992:

	Provision for Regulatory Disallowances	Provision for Refunds and Related Interest	Total
		Thousands of Dollars	
OPERATING REVENUES	$ —	$(36,584)	$ (36,584)
OPERATING EXPENSES			
Operating expenses excluding federal income tax	(4,213)	—	(4,213)
Federal income taxes — deferred	1,432	(19,165)	(17,733)
OPERATING INCOME	2,781	(17,419)	(14,638)
OTHER INCOME (LOSS)			
Provision for regulatory disallowances	(1,381,145)	—	(1,381,145)
Federal income taxes — deferred	327,178	—	327,178
Federal income taxes — investment tax credits	40,180	—	40,180
Total other income (loss)	(1,013,787)	—	(1,013,787)
TOTAL INCOME	(1,011,006)	(17,419)	(1,028,425)
OTHER INTEREST	—	19,678	19,678
EFFECT ON NET INCOME (LOSS)	$(1,011,006)	$(37,097)	$(1,048,103)

Pending the outcome of the appeal, the disallowed Comanche Peak related costs are reflected as reserves for regulatory disallowances on the Company's balance sheet.

In August 1990, the Company ceased AFUDC accruals and began depreciation provisions on approximately $1.3 billion of investment in Comanche Peak Unit 1 incurred after the end of the June 30, 1989 test year. Depreciation and rate of return on this investment are not provided for in current electric service rates but will be included in the next rate increase request of the Company. As a result, the Company's earnings and liquidity will continue to be affected until the investment incurred subsequent to the end of the test year is included in rates.

Unit 2 at Comanche Peak is scheduled for operation for the peak season of 1993 and the Company believes it will be necessary to request additional rate relief from its regulatory authorities, the amount and exact timing of which are presently undetermined. Upon commencement of operation of Unit 2, the Company currently expects to cease accrual of AFUDC on the Unit 2 investment that exceeds the $695 million included in rate base, to begin depreciation accruals on the accumulated investment in Unit 2 and to incur operation and maintenance expenses on the generating unit; all of which are not currently included in the Company's present electric service rates.

A request to place additional amounts of Comanche Peak investment in rate base will be subject to a review by the PUC for prudence of costs incurred. In connection with the September 1991 rate order, the PUC essentially reviewed costs incurred through June 1989 on Unit 2 and through fuel load in February 1990 on Unit 1. At June 30, 1992, the Company had approximately $2.2 billion invested in Comanche Peak that had not been reviewed for prudence. The Company cannot predict the outcome of any future prudence review.

12. Operations Review and Cost Reduction

In April 1992, the System Companies commenced a plan to better prepare the System Companies to operate in the rapidly changing business environment of the electric utility industry and to reduce costs. All aspects of System Companies' operations are being examined to identify strategies for effective changes in business processes and operating practices. Implementation of any resulting changes in processes and practices will begin in 1992 and extend into 1993.

As part of this plan, the System Companies announced on June 1, 1992 an offer of enhanced voluntary early retirement to approximately 3,700 of the System Companies' 15,200 employees. All other regular full-time employees have been offered a voluntary severance program. The election period for these programs ends on September 1, 1992, with actual separation dates as late as November 1, 1992; accordingly, the Company is unable to predict the costs associated with these programs. The Company intends to defer such costs and to request recovery thereof in its next rate case to be filed in connection with the scheduled operation of Comanche Peak Unit 2.

13. Commitments and Contingencies

Construction Program

Construction expenditures, excluding AFUDC, for the years 1992 through 1994 are estimated at $740,000,000, $664,000,000 and $837,000,000, respectively. The effects of inflation, additional regulatory requirements, revisions in the expected demand growth or other unknown factors could affect estimated completion costs and in service dates of generating units under construction. Commitments in connection with the construction program are generally revocable subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties.

Clean Air Act

In November 1990, the federal Clean Air Act Amendments of 1990 (Clean Air Act) were enacted which, among other things, placed limits on the sulfur dioxide emissions produced by generating units. The Clean Air Act requires that fossil-fueled plants meet new sulphur dioxide emission standards by 1995 (Phase I) and additional sulfur dioxide emission standards by 2000 (Phase II). The Company's generating units are not affected by the Phase I requirements. The Phase II requirements are currently met by all but four of the Company's generating units. Because the sulfur dioxide emissions from these four units are relatively low and alternatives are available to enable these units to reduce sulphur dioxide emissions, compliance with the applicable Phase II sulfur dioxide requirements is not expected to have a significant impact on the Company.

The Company has not finalized a compliance plan due to the uncertainty of the requirements which the Environmental Protection Agency (EPA) may include in its regulations. The Company intends to utilize internal allocation of emission allowances within its system and, if necessary, to purchase emission allowances to enable both existing and future electric generating units to meet the requirements of the Clean Air Act. The Company is unable to predict the extent to which it may generate excess allowances or will be able to acquire allowances from others if needed.

Other provisions of the Clean Air Act may require the Company to take other actions. The Company's lignite-fired generating units currently meet the required nitrogen oxide limits in the Clean Air Act. The requirements of the Clean Air Act for ozone nonattainment areas may require nitrogen oxide emission reductions at the Company's natural gas-fired units in the Dallas-Fort Worth area by 1996. The Clean Air

13. COMMITMENTS AND CONTINGENCIES — (continued)

Act also requires studies over a four year period by the EPA to assess the potential for toxic emissions from utility boilers. The Company is unable to predict whether any reductions in toxic emissions will ultimately be required. Continuous emission monitoring systems are required by the Clean Air Act to be installed by 1995 on all of the Company's fossil-fueled units.

Only certain parts of the regulations implementing the Clean Air Act have been adopted. Until more of these regulations have been promulgated, the Company will not be able to fully determine the cost or method of compliance for these requirements. The Company believes that it can meet the requirements necessary to be in compliance with these provisions as they are developed. Capital requirements related to the Clean Air Act are included in the Company's construction program. Any additional capital costs, as well as any increased operating costs associated with new requirements or compliance measures, are expected to be recovered through rates, as similar costs have been recovered in the past.

Purchased Power Contracts

The Company has entered into purchased power contracts to purchase portions of the generating output of certain cogenerators and small power producers through the year 2005. These contracts provide for capacity payments subject to a facility meeting certain operating standards and energy payments based on the actual power taken under the contracts. The cost of these purchased power contracts is recovered currently through base rates, power cost and fuel recovery factors applied to customer billings.

Leases

The Company has entered into operating leases covering various facilities and properties including such items as combustion turbines, transportation, data processing equipment and office space.

Cooling Water Contracts

The Company has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy. In connection with certain contracts, the Company has agreed, in effect, to guarantee the principal, $41,735,000 at June 30, 1992, and interest on bonds issued to finance the reservoirs from which the water is supplied. The bonds mature at various dates through 2011 and have interest rates ranging from 5-1/2 to 7%. The Company is required to make periodic payments equal to such principal and interest. Payments made by the Company are net of amounts assumed by a third party under such contracts. In addition, the Company is obligated to pay certain variable costs of operating and maintaining the reservoirs. The Company has assigned to a municipality all contract rights and obligations of the Company in connection with $94,240,000 remaining principal amount of bonds at June 30, 1992, issued for similar purposes which had previously been guaranteed by the Company. The Company is, however, contingently liable in the unlikely event of default by the municipality.

Nuclear Insurance

With regard to liability coverage, the Price-Anderson Act (Act), as most recently amended in 1988 to extend its effectiveness through 2002, was enacted by Congress to provide financial protection for the public in the event of a significant nuclear power plant incident. The Act sets the statutory limit of public liability for a single nuclear incident currently at $7.8 billion and requires nuclear power plant operators to provide financial protection for this amount. As required, the Company provides this financial protection for a nuclear incident at Comanche Peak resulting in public bodily injury and property damage through a

13. COMMITMENTS AND CONTINGENCIES — (concluded)

combination of private insurance and industry-wide retrospective payment plans. Under these arrangements, the Company is subject to an assessment of up to $66.15 million in the event of a nuclear incident at any nuclear plant in the United States. Assessments are limited to $10 million per operating licensed reactor per year per incident and are subject to increases for inflation every five years.

With respect to nuclear decontamination and property damage insurance, NRC regulations require that nuclear plant license-holders maintain not less than $1.06 billion of such insurance and require the proceeds thereof to be used to place a plant in a safe and stable condition and to decontaminate it pursuant to a plan submitted to and approved by the NRC before the proceeds can be used for plant repair or restoration or to provide for premature decommissioning. The Company maintains nuclear decontamination, premature nuclear decommissioning and property damage insurance for Comanche Peak in the amount of $2.515 billion, above which the Company is self-insured. Under a portion of this insurance, the Company is subject to a maximum annual assessment of $8 million.

In conjunction with commercial operation of Comanche Peak Unit 1, the Company began maintaining Extra Expense Insurance to cover the additional costs of obtaining replacement power from another source if Comanche Peak Unit 1 is out of service for more than twenty-one weeks as a result of covered direct physical damage. Under this coverage, the Company is subject to a maximum assessment of $5 million per year.

Nuclear Decommissioning and Disposal of Spent Fuel

The Company has established a reserve (included in accumulated depreciation) for the decommissioning of Comanche Peak Unit 1, whereby decommissioning costs are being recovered from customers over the life of the plant and deposited to an external trust fund (included in other investments). Recovery of these costs began in August 1990, when Comanche Peak Unit 1 began commercial operation. As of June 30, 1992, $16,422,000 has been deposited to the external trust fund for decommissioning. Based on a site-specific study during 1988 using then-current dollars, decommissioning costs for Comanche Peak Unit 1 were estimated to be $193,000,000.

The Company has a contract with the United States Department of Energy for the future disposal of spent nuclear fuel at a cost of one mill per kilowatt-hour of Comanche Peak Unit 1 net generation. The disposal fee is included in nuclear fuel expense.

General

In addition to the above, the Company is involved in various legal and administrative proceedings which, in the opinion of the Company, should not have a material effect upon its financial position or results of operations.

4. CHANGE IN ACCOUNTING FOR UNBILLED REVENUE

Effective January 1, 1992, the Company began recording base rate revenue for energy sold but not billed through the end of each month to achieve a better matching of revenues and expenses. Prior to the change in accounting method, revenues were recognized based on customer billings on a cycle basis. The effect of the change in accounting increased net income by $39,910,000 for the three months ending June 30, 1992. Net income increased for the six-month period, and the net loss was partially offset for the twelve-month period, by $121,496,000, of which $80,907,000 represents the cumulative effect of the change in accounting principle at January 1, 1992. Pro forma effects, assuming retroactive application of recording unbilled revenues, are presented below:

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1992	1991	1992	1991	1992	1991
	Thousands of Dollars					
As previously reported:						
Net income (loss)	$187,757	$177,939	$384,664	$329,925	$(234,435)	$829,417
Pro forma:						
Net income (loss)	$187,757	$215,249	$303,757	$347,123	$(329,824)	$840,730

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INDEPENDENT ACCOUNTANTS' REPORT

Texas Utilities Electric Company:

We have made a review of the condensed balance sheet of Texas Utilities Electric Company as of June 30, 1992, and the related condensed statements of income for the three-month, six-month and twelve-month periods ended June 30, 1992 and 1991, and cash flows for the six-month and twelve-month periods ended June 30, 1992 and 1991, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Texas Utilities Electric Company as of December 31, 1991, and the related statements of income, retained earnings and cash flows for the year then ended (not presented herein); and, have issued our report thereon dated March 13, 1992, which expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1991, is fairly stated in all material respects in relation to the financial statements from which it has been derived.

Deloitte & Touche

DELOITTE & TOUCHE

August 11, 1992

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Liquidity and Capital Resources

For information concerning liquidity and capital resources, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Form 10-K for the year 1991. No significant changes or events which might affect the financial condition of the Company have occurred subsequent to year-end other than as disclosed in this report.

Although the Company is currently restricted from issuing certain forms of debt and additional shares of preferred stock as a result of recording the disallowances resulting from its recent rate order (see below), the Company is able to replace existing debt under its mortgages and also expects to be able to issue additional securities after the twelve-month period following the recording of the disallowances. Financings to date in 1992 by the Company include the following:

Long-Term Debt:

Month	Principal Amount	Description
February	$150,000,000	8-1/8% First Mortgage and Collateral Trust Bonds due 2002
February	175,000,000	8-7/8% First Mortgage and Collateral Trust Bonds due 2022
April	50,000,000	6-3/4% Collateralized Pollution Control Revenue Bonds due 2022
April	100,000,000	8-1/4% First Mortgage and Collateral Trust Bonds due 2004
April	100,000,000	9% First Mortgage and Collateral Trust Bonds due 2022
June	150,000,000	7-1/8% First Mortgage and Collateral Trust Bonds due 1997
June	147,000,000	8% First Mortgage and Collateral Trust Bonds due 2002
June	33,000,000	6-5/8% Collateralized Pollution Control Revenue Bonds due 2022
Total	$905,000,000	

To date in 1992, the Company has redeemed or made principal payments of $1,078,824,000 on long-term debt and preferred stock, of which $1,030,000,000 represents the early redemption of higher coupon debt. In addition to the financings above, the Company plans to sell in August $175,000,000 of its First Mortgage and Collateral Trust Bonds, 6-3/8% series due August 1, 1997; $150,000,000 of its First Mortgage and Collateral Trust Bonds, 7-3/8% series due August 1, 2001; and $175,000,000 of its First Mortgage and Collateral Trust Bonds, 8-1/2% series due August 1, 2024. The funds acquired from these sales, together with funds from operation will be used to redeem the following series of the Company's First Mortgage and Collateral Trust Bonds: $200,000,000 of its 9-3/4% series due May 1, 2016 and $300,000,000 of its 9-1/2% series due December 1, 2016. The replacement of higher coupon debt during 1992 will reduce interest expense by approximately $25,000,000 for the year. Early redemptions of long-term debt and preferred stock may occur from time to time in amounts presently undetermined.

The Company expects to sell additional securities as needed, subject to the current limitations previously discussed. The Company expects to sell additional securities to replace existing debt and, when permitted, as otherwise needed from time to time, other securities including the possible future sale of up to $300,000,000 principal amount of First Mortgage and Collateral Trust Bonds currently registered with the Securities and Exchange Commission for offering pursuant to Rule 415 under the Securities Act of 1933. Sales of additional securities may occur from time to time in amounts and of types presently undetermined. The capitalization of the Company at June 30, 1992, consisted of approximately 49% long-term debt, 10% preferred stock and 41% common stock equity. For information regarding bank lines of credit and short-term financings of the Company, see Note 3 to Financial Statements.

In March 1992, the Company sold an additional $100,000,000 of its customer accounts receivables in connection with its existing agreement with certain financial institutions. (See Note 9 to Financial Statements.)

In November 1990, the federal Clean Air Act Amendments of 1990 (Clean Air Act) were enacted which, among other things, place limits on the sulfur dioxide emissions produced by generating units. The Clean Air Act requires that fossil-fueled plants meet new sulfur dioxide emission standards by 1995 (Phase I) and additional sulphur dioxide emission standards by 2000 (Phase II). The Company's generating units are not affected by Phase I requirements. The Phase II requirements are currently met by all but four of the Company's generating units. Other provisions of the Clean Air Act may require the Company to take other

Liquidity and Capital Resources – (concluded)

actions; however, only certain parts of the regulations implementing requirements have been adopted. Until these regulations have been promulgated, the Company will not be able to fully determine the cost or method of compliance for these requirements. Although the Company is unable to fully determine the cost to comply with the Clean Air Act, it is not expected to have a significant impact on the Company.

In August 1990, the Company placed Comanche Peak Unit 1 in commercial operation and implemented its requested rate increase under bond, based on a test year ended June 30, 1989. In a September 1991 order, the Public Utility Commission of Texas (PUC) substantively approved the level of rates implemented under bond and, pursuant to this order, which has been appealed in state district court, the Company recorded the provision for regulatory disallowances of certain costs associated with Comanche Peak in the amount of $1.381 billion ($1.011 billion after tax). In addition, the Company recorded a charge of $56 million, including interest ($37 million after tax), representing principally fuel gas costs disallowed by the order. (For additional information regarding the rate decision, see Results of Operations and Note 11 to Financial Statements.) As a result, the Company will be precluded for a period of approximately twelve months from the date of recording such disallowances from incurring certain forms of debt and issuing additional shares of preferred stock. The approved rates have improved cash flows from operations and will reduce future financing requirements. Because of the Company's credit lines, sales of common stock and cash from operations, the Company does not anticipate a significant change in its ability to fund continuing operations and its capital requirements.

Also in August 1990, the Company ceased allowance for funds used during construction (AFUDC) accruals and began depreciation provisions on approximately $1.3 billion of investment in Comanche Peak Unit 1, incurred after the end of the June 30, 1989 test year. Depreciation and rate of return on this investment is not provided for in current electric service rates but will be included in the next rate increase request of the Company. As a result, the Company's earnings and liquidity will continue to be affected until the investment incurred subsequent to the end of the test year is included in rates. See Note 11 to Financial Statements regarding the Company's need for future rate increases.

Although the Company cannot predict the outcome of the appeals of the 1991 rate decision, future regulatory actions or any changes in economic and securities market conditions, no changes are expected in trends or commitments which might significantly alter its basic financial position.

In April 1992, the Texas Utilities Company and its subsidiaries (System Companies) commenced a plan to better prepare the System Companies to operate in the rapidly changing business environment of the electric utility industry and to reduce costs. All aspects of System Companies' operations are being examined to identify strategies for effective changes in business processes and operating practices. Implementation of any resulting changes in processes and practices will begin in 1992 and extend into 1993.

As part of this plan, the System Companies announced on June 1, 1992 an offer of enhanced voluntary early retirement to approximately 3,700 of the System Companies' 15,200 employees. All other regular full-time employees have been offered a voluntary severance program. The election period for these programs ends on September 1, 1992, with actual separation dates as late as November 1, 1992; accordingly, the Company is unable to predict the costs associated with these programs. The Company intends to defer such costs and to request recovery thereof in its next rate case to be filed in connection with the scheduled operation of Comanche Peak Unit 2.

Results of Operations

The following compares operating results for the three-, six- and twelve-month periods ended June 30, 1992 with the same periods ended June 30, 1991.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (Continued).

Results of Operations — (continued)

Operating revenues decreased 1.7% for the six-month period and were relatively unchanged for the three- and twelve-month periods ended June 30, 1992. The following table details the factors contributing to these changes:

Factors	Increase (Decrease)		
	Three Months Ended	Six Months Ended	Twelve Months Ended
	Thousands of Dollars		
Base rate revenue	$(34,760)	$(61,386)	$ 63,007
Fuel revenue	(40,052)	(39,968)	(84,657)
Power cost recovery factor revenue	8,470	(275)	(37,833)
Unbilled revenue and other	65,058	63,262	62,094
Total	$ (1,284)	$(38,367)	$ 2,611

Base rate revenue for all periods was affected by lower energy sales. Energy sales decreased 5.6%, 5.5% and 4.0% for the three-, six- and twelve-month periods, respectively, due to decreased customer usage resulting from the effects of economic conditions and milder weather, partially offset by increased customers. The twelve-month period was affected by the rate increase placed in effect in August 1990 which increased base rate revenue approximately $147,000,000, including approximately $40,000,000 reclassified from power cost recovery revenue to base rate revenue. Fuel revenues have decreased for the three-, six- and twelve-month periods primarily due to decreased energy sales and a lower fuel factor in connection with the current rates, partially offset by a fuel refund in the prior period. The twelve-month period also includes a reduction of approximately $29,000,000 principally due to the PUC's order to refund disallowed fuel gas purchases incurred during the period from April 1983 to June 1989. (See Note 11 to Financial Statements.) The increase in unbilled revenue and other was primarily due to the accrual of unbilled revenue in the current period. (See Note 14 to Financial Statements.)

Fuel and purchased power expense decreased 6.6%, 4.2% and 2.7% for the three-, six- and twelve-month periods, respectively. The decrease for all periods was primarily due to reduced energy sales and the increased use of lower cost nuclear fuel. In the twelve-month period, the decrease was also due to a reduction in off-system power purchases.

Total operating expenses, excluding fuel and purchased power, increased 4.1%, 1.3% and 5.0% for the three-, six- and twelve-month periods, respectively. The increase in all periods was primarily due to increased taxes other than income and increased federal income taxes. Taxes other than income increased in all periods due primarily to increased property taxes, reflecting the effects of legislation creating county education districts. In January 1992, the Texas Supreme Court declared the legislation unconstitutional and instructed the State legislature to provide a revised law for school funding by June 1, 1993, with the current law to remain in effect pending action by the legislature. Federal income taxes increased for all periods due to deferred taxes associated with the recording of unbilled revenues and for changes in the amortization of tax rate differences due to recording the Company's rate order. The increase in total operating expenses, excluding fuel and purchased power, was partially offset by decreased operation and maintenance expense due to decreases in employee related costs and legal expenses, and management's efforts to further reduce other costs. Also, in the three- and six-month periods, depreciation and amortization expense decreased due to recording the disallowances associated with Comanche Peak Unit 1 in the Company's rate order.

AFUDC decreased 7.3%, 8.5% and 10.8% for the three, six and twelve months ended June 30, 1992, respectively, due primarily to the effect of the implementation of the rate order in October 1991 by placing $695 million of construction work in progress (CWIP) in rate base and the exclusion of $485 million of CWIP disallowed on Unit 2 of Comanche Peak. The decrease in the twelve-month period was also due to the full

Results of Operations — (concluded)

period's effect of the discontinuation of the accrual of AFUDC on Comanche Peak Unit 1 when the unit was placed in commercial operation in August 1990 and by the effect of the decrease in AFUDC rates in 1992. (See Note 1 to Financial Statements.)

The provision for regulatory disallowances reflects a charge to comply with the PUC's decision in the Company's rate order. The decision, which the Company is appealing, included a prudence disallowance of $472 million with respect to certain Comanche Peak cost relating to 87.8% of the Company's ownership interest in both units of Comanche Peak. In addition, the decision provided for a disallowance of $909 million for costs associated with the Company's reacquisition of the remaining 12.2% minority ownership interest in Comanche Peak. (See Note 11 to Financial Statements.)

Other income and deductions-net decreased for the three- and six-month periods and increased for the twelve-month period due to changes in interest income on temporary cash investments.

Federal income taxes-other income decreased for the twelve-month period due to the effect of recording the taxes associated with the provision for regulatory disallowances. (See Notes 7 and 11 to Financial Statements.)

Total interest charges, excluding AFUDC, decreased 4.9% and 1.2% for the three- and six-month periods and increased 6.2% for the twelve-month period. Interest on mortgage bonds increased in all periods due to annualized interest on issues sold in prior periods, partially offset by retirements and redemptions of certain higher interest rate issues. Interest on other long-term debt decreased in all periods due to the continuing retirement of debt incurred on the purchase of the minority ownership interests in Comanche Peak. (See Note 6 to Financial Statements.) Other interest expense decreased for the three- and six-month periods due to interest related to the settlement of prior years' federal income tax returns in the previous periods and lower interest rates on short-term borrowings. The twelve-month period increase was due to interest associated with the PUC's order to refund disallowed fuel gas costs, interest associated with the settlement of prior year's federal income tax returns and increased interest on short-term borrowings.

The cumulative effect of recording unbilled revenue reflects the accounting change on January 1, 1992, by the Company to begin recording base rate revenue for energy sold but not billed. (See Note 14 to Financial Statements.)

Net income increased 5.5% and 16.6% for the three- and six-month periods. The change in accounting for unbilled revenue increased net income for the six-month period, and partially offset the net loss for the twelve-month period, by $121,496,000, of which $80,907,000 represents the cumulative effect of the change in accounting principle at January 1, 1992. The net loss for the twelve-month period was due to the recognition of the provision for regulatory disallowances and the provision for refunds and related interest described above and in Note 11 to Financial Statements. Another major factor affecting earnings for the twelve-month period was the discontinuation of the accrual of AFUDC on approximately $1.3 billion of investment in Comanche Peak Unit 1, incurred after the end of the test year, which is not provided for in current rates but which will be included in future rate increase requests.

Preferred stock dividends of the Company decreased in all periods due to a reduction in adjustable dividend rates.

Pending Accounting Changes

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", which is effective for fiscal years beginning after December 15, 1992. The Statement requires a change in the accounting for a company's obligation to provide health care and certain other benefits to its retirees from

Pending Accounting Changes — (concluded)

the "pay-as-you-go" method to an accrual method and requires the cost of the obligation to be recognized in the period from employment date until full eligibility for benefits. The Company expects that the accrual of benefits cost will either be recovered through future rates beginning after the commercial operation of Comanche Peak Unit 2, which is similar to the current treatment of retirement plan costs, or, pursuant to certain provisions of the Statement, that a regulatory asset will be recorded to reflect amounts, if any, whose future recovery is probable through rates as costs are paid. Therefore, this Statement is not expected to have a material effect on the Company's financial position or results of operations.

In February 1992, the FASB issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", which is effective for fiscal years beginning after December 15, 1992. The Statement, among other things, requires the liability method of recognition for all temporary differences, requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates and prohibits net-of-tax accounting and reporting. Certain provisions of the Statement provide that regulated enterprises are permitted to recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. Although application of the Statement will increase both total assets and liabilities, these requirements are not expected to have a material effect on the Company's financial position or results of operations.

TEXAS UTILITIES ELECTRIC COMPANY

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

By written consent dated May 15, 1992, the holder of all of the outstanding shares of common stock of the Company (i) re-elected all of the incumbent directors, (ii) approved an amendment to the Articles of Incorporation of the Company limiting the liability of the directors for monetary damages in certain circumstances, and (iii) approved a proposal, thereafter adopted as an amendment to the Bylaws of the Company, authorizing the Company to enter into certain indemnification arrangements with officers, directors, employees and agents.

Item 5. Other Information.

Comanche Peak Nuclear Generating Station

Reference is made herein to Note 10 to Financial Statements contained in Part I of this Report regarding the Comanche Peak Nuclear Generating Station.

Rate Increase

Reference is made herein to Note 11 to Financial Statements and Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part I of this Report regarding the Rate Increase.

Operations Review and Cost Reduction

Reference is made herein to Note 12 to Financial Statements and Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part I of this Report regarding an Operations Review and Cost Reduction effort.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits filed as a part of Part II are:

4(a)	—	Articles of Amendment to the Articles of Incorporation of the Company.
4(b)	—	Bylaws, as amended, of the Company.
15	—	Letter from Deloitte & Touche as to unaudited interim financial information.
28(a)	—	Thirty-Sixth Supplemental Indenture, dated as of June 1, 1992, to the Company's Mortgage and Deed of Trust, dated as of December 1, 1983, between the Company and Irving Trust Company (now the Bank of New York), Trustee.
28(b)	—	Thirty-Seventh Supplemental Indenture, dated as of June 1, 1992, to the Company's Mortgage and Deed of Trust, dated as of December 1, 1983, between the Company and Irving Trust Company (now the Bank of New York), Trustee.
28(c)	—	Thirty-First Supplemental Indenture, dated as of June 1, 1992, to the Dallas Power & Light Company Mortgage and Deed of Trust, dated as of May 1, 1945, between Dallas Power & Light Company and Old Colony Trust Company, Trustee (The First National Bank of Boston, successor Trustee).

(b) Reports on Form 8-K filed since March 31, 1992, are as follows:

Date of Report	Item Reported
April 10, 1992	Item 7. FINANCIAL STATEMENTS AND EXHIBITS
June 17, 1992	Item 5. OTHER EVENTS Item 7. FINANCIAL STATEMENTS AND EXHIBITS
June 23, 1992	Item 7. FINANCIAL STATEMENTS AND EXHIBITS
August 7, 1992	Item 7. FINANCIAL STATEMENTS AND EXHIBITS

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TEXAS UTILITIES ELECTRIC COMPANY

By /s/ S. S. Swiger
S. S. Swiger
Vice President, Controller and
Principal Accounting Officer

Date: August 11, 1992